Wall Street's eyes are on Argentina

by Gerardo Terán Canal

"Argentina has been spotlighted by investors as the Latin American economy most likely to crack next," the *Financial Times* of London warned on March 8. The *Wall Street Journal* added on the same day that "investor fears that Argentina could face a financial meltdown such as Mexico's have been building for two weeks." As the country's markets gyrate, and even shut down as the Buenos Aires stock market did abruptly on March 7 after dropping 7.7%, international financial observers are noting the country's severe liquidity crisis, the drop in reserves by $3 billion this year, and growing capital flight.

In question, they say, is whether the government's convertibility plan, which by law establishes a one-to-one parity between the peso and the dollar, can survive under these circumstances (in order to prop up banks, the central bank has already taken steps which violate the plan's charter). Secondarily, can President Carlos Menem, whose fate is tied to the success of the convertibility plan, be reelected in May, if the plan does not survive?

Wall Street analysts are also chewing their nails over the fact that Argentina has $9 billion in principal and interest payments to meet this year. Can it pay? Not even the severe austerity package announced by Finance Minister Domingo Cavallo on Feb. 27, intended to raise an additional $3.5 billion in revenues, has inspired the required "investor confidence" which Cavallo so frequently mentions. The default on $63 million in foreign debt by the Alto Parana, S.A. paper company in late February fueled panic that more companies will follow.

The possibility that Argentina will be the next to fall is keenly perceived locally. On March 5, one of the country's oldest and most prestigious newspapers, *La Nación,* resorted to the symbol first used by economist Lyndon LaRouche when it published a picture of a sinking *Titanic* next to an article entitled "Industry—Everything Is Shaking." The daily documented the dramatic collapse of Argentina's physical economy and corresponding decline in consumer demand, evidenced by a sharp drop in sales.

Cavallo and other government officials describe the situation as a "crisis of confidence" by foreign and national investors. Between Dec. 20 and Feb. 27, some $3.7 billion fled the domestic banking system—7% of total assets. Banks have already used $1 billion of a safety net set up to keep banks afloat and reportedly need another $2 billion *over the next few weeks*. Yet on March 8, Cavallo announced there is only $200 million left in the bank safety net and urged the creation of a new trust fund that could serve as a "lender of last resort" for banks. In two months, the number of banks in the country has dropped from 168 to 141.

What Cavallo doesn't want to admit is the likelihood that both the government and the private sector won't be able to meet their foreign debt obligations this year. The government must pay $1.7 billion on March 31, and there is $400 million in maturing debt due on the same day by the private sector.

Chaos reigns

The tenuousness of the situation is seen in what happened during the week of Feb. 26 to March 4, when it appeared that everything was out of control. On Feb. 28, the stock market fell by over 7.7%—bringing the year's drop to 40%. Interest rates hovered around 50% and, according to one business source, bankers were calling up company executives and offering interest rates as high as 30% if those companies would deposit their funds in the banks. By March 2, the interbank lending rate known as "call money" had shot up to 55%, Some companies had to pay as high as 90% interest for 30-day loans needed to pay off debts first borrowed at less than 30%. Credit is simply not available.

On Friday, March 3, at 3:00 p.m., the Buenos Aires stock market dropped by more than 8% and rumors flew through the financial district about the death of the convertibility plan. Reliable sources told this press service that Cavallo even had his plane tickets in hand and was prepared to leave the country, to take up a new position at the International Monetary Fund (IMF). Businessmen ran to withdraw funds from the banks based on the rumor that the government was planning to do what it had done in 1989 (also under Cavallo's supervision): freeze fixed-term deposits and pay depositors with dollar-denominated foreign debt bonds, Bonex, in order to inject liquidity into the banking system.

The day was only saved when at 3:05 p.m., the IMF announced that it would allow Argentina to access $420 million in "undrawn resources" from a $3.7 billion loan it had received three years ago. In addition to this, Menem announced that the World Bank would also grant a $1 billion loan for the reform of provincial banks.

Euphoria returned only briefly. At the beginning of the following week, the markets dropped again. And now, the finance minister is singing a somewhat different tune. In statements to the Congress on March 8, he warned that "reality is serious. . . . There is a crisis in the international markets which can worsen in the coming hours. . . . We are living through extremely critical times in which we could fall apart in a very costly fashion and find ourselves at the bottom of a well out of which it would take a very long time to climb." Admitting that Argentina may now face a recession, the minister demanded that "structural reform" be accelerated.

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